

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 59th LEGISLATURE - REGULAR SESSION

COMMITTEE ON FEDERAL RELATIONS, ENERGY, AND TELECOMMUNICATIONS

Call to Order: By **CHAIRMAN ALAN OLSON**, on April 11, 2005 at 3:20 P.M., in Room 303 Capitol.

ROLL CALL

Members Present:

Rep. Alan Olson, Chairman (R)
Rep. Dave Gallik, Vice Chairman (D)
Rep. Dennis Himmelberger, Vice Chairman (R)
Rep. Robyn Driscoll (D)
Rep. George G. Groesbeck (D)
Rep. Robin Hamilton (D)
Rep. Hal Jacobson (D)
Rep. Harry Klock (R)
Rep. Mark E. Noennig (R)
Rep. Diane Rice (R)
Rep. Wayne Stahl (R)
Rep. Karl Waitschies (R)
Rep. Brady Wiseman (D)

Members Excused: Rep. John Parker (D)

Members Absent: None.

Staff Present: Todd Everts, Legislative Branch
Cynthia Peterson, Committee Secretary

Please Note. These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing & Date Posted: SJ 31, 4/6/2005; SB 415, 4/5/2005
Executive Action: None.

HEARING ON SJ 31

Opening Statement by Sponsor:

SEN. AUBYN CURTISS (R), SD 1, opened the hearing on **SJ 31**, a Bonneville Power resolution. **SEN. CURTISS** believed the proposed 20 percent rate hike would devastate individual and commercial ratepayers and would threaten the region's economic recovery. **SEN. CURTISS** stated the proposal is introduced every few years in Congress, usually by Mid-West and Northeastern Senators who resent the cheaper power rates enjoyed by the Northwest. **SEN. CURTISS** read quotations from Montana's Congressional Delegation.

Proponents' Testimony:

Gary Wiens, Montana Electric Cooperatives' Association, submitted written testimony as a proponent of SJ 31. **EXHIBIT**(feh77a01)

Greg Jergeson, Chairman, Montana Public Service Commission (PSC), reported the PSC voted to support SJ 31. **Commissioner Jergeson** believed the Western Area Power Administration (WAPA) also affects rates in Montana, and **Mr. Jergeson** thought WAPA should be included. **CHAIRMAN OLSON** stated he would check with legal counsel to determine whether WAPA could be included.

Dan Flynn, International Brotherhood of Electrical Workers (IBEW) Local 44, stated if Montana has cost-based electricity, it should keep it.

Haley Beaudry, Columbia Falls Aluminum Company (CFAC), stated the history of Bonneville Power is one of cost-based power. **Mr. Beaudry** believed if the proposal were to come to pass, the market would be California. **Mr. Beaudry** testified Montana companies, businesses, irrigators, and homeowners would all be competing against the California market place.

Mike Volesky, Governor's Office, stated Bonneville Power Administration and WAPA rates and other rates were the subject of a letter sent to key members of Congress regarding the move to market rates. **Mr. Volesky** explained the letter reminded the members of Congress that when these projects were developed, part of the promise was that Montana would receive low power rates to mitigate some of the productive loss of lands that are now underwater. **Mr. Volesky** assured the Committee he intended to pursue the matter with key members of Congress.

Opponents' Testimony: None.

Informational Testimony: None.

Questions from Committee Members and Responses: None.

Closing by Sponsor:

SEN. CURTISS closed the hearing on SJ 31.

(Recess taken from 3:30 until 3:42.)

HEARING ON SB 415

Opening Statement by Sponsor:

SEN. JON TESTER (D), **SD 15**, opened the hearing on **SB 415**, which would expand production and use of alternative energy. **SEN. TESTER** cited Montana's great potential for wind power, solar power, biomass generation, and small hydro projects, especially in central and eastern Montana. **SEN. TESTER** believed development of wind energy in central and eastern Montana would develop jobs, increase the tax base, help keep schools open, and improve communities. **SEN. TESTER** reviewed the requirements of SB 415. **SEN. TESTER** explained the demand for renewable energy is growing rapidly. **SEN. TESTER** recognized the rapid growth in renewable energy production experienced by 18 other states. **SEN. TESTER** identified the key component of SB 415 as the requirements in a public utilities' portfolio; namely, 5 percent by 2008; 10 percent by 2010, and 15 percent by 2015. **SEN. TESTER** thought in ten years, 15 percent would be looked upon as a minimum.
{Tape: 1; Side: A; Approx. Time Counter: 15 - 18.5; Comments: Opening statement by SEN. TESTER.}

Proponents' Testimony:

Greg Jergeson, Chairman, Montana Public Service Commission, reported the PSC voted 3-2 to support passage of SB 415. Commissioner Jergeson submitted written testimony in support of SB 415.

EXHIBIT (feh77a02)

Mike Volesky, Governor's Office, testified nobody wants to see a jump in power rates and, therefore, SB 415 provides an off ramp, so if the development of renewable resources proves to be too costly or jeopardizes reliability, customers will not be faced

with the bill. **Mr. Volesky** spoke about the many benefits provided by wind generation. **Mr. Volesky** stated the Northwest Power and Planning Council is required to develop a 20-year plan to assure the region of an efficient, economical, and reliable power system. **Mr. Volesky** submitted written testimony on behalf of the Northwest Power Planning Council.

EXHIBIT (feh77a03)

Art Compton, Department of Environmental Quality (DEQ), testified that SB 415 provides utilities with flexibility to reach the prescribed goals. **Mr. Compton** emphasized that wind development requires a fairly modest amount of irreversible and irretrievable resources. **Mr. Compton** believed SB 415 recognizes potential problems in integrating large amounts of wind into the transmission system. **Mr. Compton** also liked the built-in consumer protection provisions of SB 415.

Joel Clairmont, Deputy Director, Montana Department of Agriculture, testified that the Department of Agriculture supports SB 415.

Roby Roberts, PPM Energy and American Wind Energy Association, explained that PPM Energy currently controls 700 MW of wind in its wind portfolio and is planning on building 600 MW of wind in 2005. **Mr. Roberts** explained his company is prepared to invest hundreds of millions on dollars in Montana for wind development. **Mr. Roberts** identified the companies that are investing in many of PPM Energy's projects.

{Tape: 1; Side: B}

Mr. Roberts identified wind as the fastest growing technology in the world and stated wind is competitive with any new generation technology. **Mr. Roberts** suggested SB 415 would go a long way in kick starting the market for wind in Montana.

John Schieffelbein, Fairfield, received a grant from the National Center of Appropriate Technology in Butte for half of the cost for a 10K wind unit which was put up in October 2004. **Mr. Schieffelbein** spoke about his savings and testified that excess energy goes into the utility company's lines. In addition, **Mr. Schieffelbein** has a net metering agreement with his utility company. **Mr. Schieffelbein** believed the portion of the generator his family has invested in will pay for itself in approximately ten years.

Sherry Phillips, Mayor of McCamey, Texas, shared the success story of McCamey, Texas, and what renewable energy has meant to the town. **Ms. Phillips** cited the similarities between McCamey and Montana such as drought and wind and the search for economic opportunities. **Ms. McCamey** submitted information entitled "What Renewable Energy Means to Texas."

[EXHIBIT \(feh77a04\)](#)

Van Jamison, self, testified wind power is available at or below market prices. **Mr. Jamison** thought the legislation was necessary since people purchasing the power are not able to make choices about what power is purchased. **Mr. Jamison** recalled that portfolio standards have been adopted in 18 states and that information gathered on those states' experiences indicate there is no risk of exposure to ratepayers, and there are large economic benefits.

Bob Anderson, former Montana Public Service Commissioner, grew up in Livingston, and spoke about the restructuring of the electric industry in the West. **Mr. Anderson** spoke about the challenge of getting an industry that will do what customers expect. **Mr. Anderson** identified low cost, reliability, and environmental responsibility as ideal goals for a generation portfolio. **Mr. Anderson** believed government has a role in deciding the best portfolio generation that will meet the ideal goals. **Mr. Anderson** believed wind should be a strong element of the portfolio.

Chris Taylor, Zilkha Renewable Energy, thought wind energy is viewed by the largest financial institutions in the world as something that is competitive and likely to grow in market share across the country and the world. **Mr. Taylor** explained his company would look to state policies as a critical factor in where his company would choose to invest its money. **Mr. Taylor** highlighted the economic benefits to having a wind generation company begin production in Montana. **Mr. Taylor** cautioned that no matter what type of generation resources Montana chooses to have, transmission will be an absolute necessity. **Mr. Taylor** closed by saying his company would love to be doing business in Montana, and SB 415 would be a policy decision that would help make Montana a viable business decision for his company.

Paul Williamson, Dean of Missoula College of Technology, suggested SB 415 could make a difference in Montana's future. **Mr. Williamson** emphasized how high school and college graduates are leaving Montana, and families on farms and ranches are contemplating making the same decision. **Mr. Williamson** noted the

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dependancy on world oil supplies and the need for alternative energy sources. **Mr. Williamson** believed SB 415 would allow Montana to help itself become a leader in energy education, economics, and alternative energy development.

Richard Moe, Wheatland County Board of Commissioners, believed SB 415 would support economic development in Montana and bring tax dollars to struggling rural communities.

{Tape: 2; Side: A}

Pat Dopler, Red Lodge, testified that Montana is ready for a good business opportunity.

Claudia Sanders Brown, Montana Association of Churches, Caring for Creation Network, and the National Global Warming Coalition, submitted written testimony in support of SB 415.

[EXHIBIT](#)(feh77a05)

Kathleen Williams, Montana League of Women Voters, submitted written testimony, including a proposed amendment, in support of SB 415.

[EXHIBIT](#)(feh77a06)

Russell Doty, New World WindPower LLC, submitted written testimony in support of SB 415.

[EXHIBIT](#)(feh77a07)

Wendy Kleinsasser, Wind Park Solutions America, Big Sandy, stated Wind Park Solutions does not want its wind farm in Wheatland County to be the last wind project in Montana.

Chris Christiaens, Montana Farmers Union, submitted a "Renewables Portfolio Standard Overview" and information on "Fulfilling Montana's Potential, Prospering from the Wind."

[EXHIBIT](#)(feh77a08)

[EXHIBIT](#)(feh77a09)

Dave McClure, a farmer from Lewistown and President of the Montana Farm Bureau Federation, also testified on behalf of the **Montana Grain Growers' Association**. **Mr. McClure** supports continued cooperation to develop alternative energy and supports wind power as an alternative energy source.

Marge Crennen, Volunteer Advocate, AARP Montana, submitted written testimony in support of SB 415.

[EXHIBIT](#)(feh77a10)

Peggy Gander, self, expressed concerns about potential blackouts and our dependence on fossil fuels.

Lee Taverner, Missoula owner of a solar energy store, supports SB 415 and the development of wind and solar energy in Montana.

Don Judge, Teamsters Local 190 and the Montana Chapter of the Sierra Club, spoke about the Apollo Project and its goal to create the promotion of renewable, clean, healthy energy and good jobs. **Mr. Judge** suggested Montana could create as many as 7,600 jobs over the next ten years.

Matt Elsaesser, Montana Conservation Voters and the Common Sense Conservation Agenda, viewed SB 415 as reasonable legislation to support conservation, the rural economy, and the future of Montana.

Derek Goldman, Montana Audubon, testified that he supports SB 415.

Ann Gravait, Renewable Northwest Project, testified that she supports SB 415.

Kathy Hedley, National Center for Appropriate Technology, testified that she supports SB 415.

David Ryan, Montana Renewable Energy Association, testified that he supports SB 415.

Jim Barngrover, Alternative Energy Resources Organization, testified that he supports SB 415.

John Gatchell, Montana Wilderness Association, submitted written testimony in support of SB 415.

[EXHIBIT\(feh77a11\)](#)

Michele, Reinhart, Northern Plains Resource Council, testified that she supports SB 415.

Matt Leow, Montana Public Interest Resource Group, testified that he supports SB 415.

Chuck McGraw, Natural Resources Defense Council, testified that he supports SB 415.

Charles Day, Bozeman, testified that he supports SB 415.

Patrick Judge, Montana Environmental Information Center, submitted written testimony in support of SB 415. **Mr. Judge** also submitted written testimony from Larry Mires, Two Rivers Economic Growth; Christopher Borton, Sage Mountain Center; and Park County Commissioners Dick Murphy and Larry Lahren.

[EXHIBIT\(feh77a12\)](#)

[EXHIBIT\(feh77a13\)](#)

[EXHIBIT\(feh77a14\)](#)

[EXHIBIT\(feh77a15\)](#)

Tom Schneider, Montana Public Service Commission, testified that he supports SB 415.

Neil Haight, self, supported SB 415 and offering competition to the pricing policies of Pennsylvania Power and Light.

Opponents' Testimony:

John Alke, Montana Dakota Utilities Company (MDU), participated in the Colstrip war, the deregulation war, and stated he will now participate in the war over wind. **Mr. Alke** noted parallels between the proponents' testimony and the testimony offered in 1997. **Mr. Alke** recalled his plea in 1997 to exempt MDU from deregulation. **Mr. Alke** believed SB 415 would apply to only Northwestern Energy (NWE) and MDU. **Mr. Alke** asked the Committee to consider the fact that NWE is a deregulated utility that owns no generation and must buy its power in the open market. MDU, on the other hand, did not deregulate and owns its generation. MDU does not need new generation in Montana to serve its customers. **Mr. Alke** submitted "A Comparison of Projected Wind Power Cost to the Cost of Power on the Northwestern and Montana-Dakota Systems" and reviewed it with the Committee. **Mr. Alke** summarized that requiring MDU to purchase wind would result in MDU paying twice as much for power as it would if it generated its own power. This would result in a ten percent rate increase for MDU customers.

[EXHIBIT\(feh77a16\)](#)

Mr. Alke submitted a proposed amendment which would codify SB 415 specifically to Chapter 8, Title 69.

[EXHIBIT\(feh77a17\)](#)

Mr. Alke emphasized that MDU does not purchase power at the market rate and the bill would result in higher rates for the customers in eastern Montana.

**{Tape: 2; Side: A; Approx. Time Counter: 16.4 - 24.9; Comments:
Testimony of John Alke.}**

John Fitzpatrick, Northwestern Energy, agreed that wind energy has a place in the energy market, and that there is an opportunity for wind development in Montana. **Mr. Fitzpatrick** suggested there were serious problems with SB 415. **Mr. Fitzpatrick** identified the first problem area as Page 2, Lines 22-24, and the definition of "community renewable energy projects." **Mr. Fitzpatrick** also believed there was a potential for net metering and, possibly, a potential for industrial-scale net metering. **Mr. Fitzpatrick** noted most of the proponents spoke about large-scale developments and not "mom and pop" operations of two-five megawatts. **Mr. Fitzpatrick** pointed out there is not even a crane in Montana that could lift a large-scale generator into the air and also pointed out the high cost of having a crane that large brought into Montana.

{Tape: 2; Side: B}

Mr. Fitzpatrick spoke about the difference between energy capacity and energy delivered and the need for increased transmission in Montana. **Mr. Fitzpatrick** testified he disagreed with the fine provision contained in Section 4, Page 6, Line 19, and did not feel the provision would result in Northwestern being more committed to renewable energy. **Mr. Fitzpatrick** depicted renewables as often times intermittent and believed reliability would increase the capital cost. In addition, the cost of ancillary services will increase the cost of renewables.

Mr. Fitzpatrick spoke about SB 415's reference to the PSC setting cost caps. **Mr. Fitzpatrick** related this to the caps set for Qualifying Facility (QF) contracts and suggested this was blundered by the PSC. **Mr. Fitzpatrick** warned against allowing the PSC to set cost caps for renewables.

In addressing economic development, **Mr. Fitzpatrick** held that if MDU was exempted from SB 415, the legislation would result in one more wind farm and only eight more jobs. **Mr. Fitzpatrick** summarized that if NWE could find cost-effective renewable energy, it would use it, and that it was not necessary to have legislation. **Mr. Fitzpatrick** stated NWE would like to reduce its dependence on PPL Montana.

Doug Mood, Montana Public Service Commission, submitted written testimony in opposition to SB 415.

EXHIBIT (feh77a18)

Bud Clinch, Montana Coal Council, testified that if something is mandated by law, it is no longer a choice. **Mr. Clinch** believed SB 415 would legislate away 15 percent of the portfolio. **Mr. Clinch** agreed that Montana has a good wind market, but pointed out Montana also has 119 billion tons of recoverable coal. **Mr. Clinch** urged the Committee to look at the trade offs in terms of jobs, coal taxes, and royalties.

{Tape: 2; Side: B; Approx. Time Counter: 14.2 - 20.8; Comments: Testimony of Bud Clinch.}

Ron Perry, Commercial Energy of Montana, Cutbank, agreed the bill has the best of intentions, but asked the Committee to consider two questions: (1) Does this mandate stabilize prices for the affected customers; and (2) does SB 415 raise the price and lower competitive alternatives for businesses?

Mr. Perry demonstrated that 70 percent of the portfolio is bought at \$35/MW under a fixed-price contract; 15 percent is QF power at \$45/MW; and the remaining 15 percent is variable and represents what is needed to meet demand on every minute of every day considering climate changes. **Mr. Perry** suggested wind would take 15 percent out of the portfolio, but that 15 percent would displace 15 percent of the baseload. **Mr. Perry** held that SB 415 would not stabilize prices for consumers. **Mr. Perry** was also troubled by the requirement for ten-year contracts because most contracts are for one, two, or three years.

{Tape: 3; Side: A}

Don Quander, Montana Large Customer Group, submitted a list of questions for the Committee's consideration.

[EXHIBIT](#)(feh77a19)

Haley Beaudry, Columbia Falls Aluminum Company (CFAC), represents one of the largest employers in northwestern Montana and one of the largest users of electricity in Montana. **Mr. Beaudry** explained CFAC is operating at approximately 20 percent of capacity in an effort to survive. **Mr. Beaudry** suggested wind should come into the market on its own strength.

Informational Testimony:

Alan Davis, Powerex, explained Powerex's experience with portfolio standards and explained how SB 415 differs from other portfolio standards in the West. **Mr. Davis** thought SB 415 confuses buyers and sellers. **Mr. Davis** noted the bill's

reference to "competitive electricity suppliers" are, in actuality, sellers.

Doug Hardy, Montana Electric Cooperatives, submitted informational testimony on SB 415.

EXHIBIT(feh77a20)

{Tape: 3; Side: A; Approx. Time Counter: 17.6 - 20.5; Comments: Testimony of Doug Hardy.}

Questions from Committee Members and Responses:

REP. HAL JACOBSON, HD 82, HELENA, asked Commissioner Schneider whether he opposed deregulation in 1997. **Commissioner Schneider** agreed he did. **REP. JACOBSON** recalled opponents' concerns about price increases to Montana's ratepayers and asked Commissioner Schneider whether he agreed with that concern. **Commissioner Schneider** did not agree with that concern and stated he believes SB 415 would have a stabilizing effect in terms of future power prices. **Commissioner Schneider** commented that he agrees with the testimony offered by Commissioner Mood.

REP. BRADY WISEMAN, HD 65, BOZEMAN, asked Commissioner Schneider to respond to NWE analysis of SB 415 as presented by Mr. Fitzpatrick. **Commissioner Schneider** suggested Mr. Fitzpatrick's remarks were misplaced. **Commissioner Schneider** thought Mr. Fitzpatrick should listen to people at NWE that know about wind and wind integration costs and the value of wind in displacing extremely high market prices.

REP. WISEMAN was interested in employment opportunities associated with wind projects and asked Mr. Taylor to speak about those opportunities. **Mr. Taylor** stated the length of time needed for construction will dictate the number of jobs. The length of time for a typical project is nine months to one year, and a 250 MW project would employ 150-250 people over the total construction period.

REP. DAVE GALLIK, HD 79, HELENA, thought there is a pattern now and in past sessions to exempt co-ops and MDU from different energy bills. **REP. GALLIK** asked Mr. Anderson to discuss whether this is a good policy. **Mr. Anderson** believed the system under which co-ops are owned and operated does not lend itself to regulation.

{Tape: 3; Side: B}

Mr. Anderson continued saying MDU was correct in 1997 in terms of what it thought would be the impact of deregulation. **Mr. Anderson** thought, however, that MDU's argument for exemption from SB 415 was not as strong.

REP. GALLIK directed Patrick Judge to Page 3, Lines 3-5, and the language that read "... that commences commercial operation after January 1, 2005...." **REP. GALLIK** wanted to know if SB 415 would only apply to those facilities that are currently not in existence or that just came into existence in the past couple of months. **Mr. Judge** agreed with **REP. GALLIK**'s assumption. **Mr. Judge** explained the idea is to provide an incentive for new development of modern resources. **Mr. Judge** clarified that modern resources are more cost effective and have lesser impacts.

REP. GALLIK directed Mr. Judge to Page 2, Line 25, and the definition for "competitive electrical supplier" and asked how that definition would affect a new coal-fired generation plants. **Mr. Judge** responded the fundamental reasoning behind including the language is the goal of uniformity in the treatment of Montana customers. **REP. GALLIK** wondered if uniformity was the issue, why the co-ops should be exempted. **Mr. Judge** agreed with Mr. Anderson's analysis that the co-ops are in a unique situation.

REP. ROBYN DRISCOLL, HD 51, BILLINGS, asked Ms. Phillips if rates in Texas had increased since Texas passed its renewable mandates. **Ms. Phillips** was not certain whether the rates had gone up, but believed the rates had not increased.

REP. DRISCOLL asked Mr. Anderson about Montana's need for new transmission lines if SB 415 were to pass. **Mr. Anderson** spoke about the integration of the industry and how generation and transmission are linked together. **Mr. Anderson** replied there would be impacts to transmission as a result of SB 415, but stated the impacts would not be like those described earlier by Mr. Fitzpatrick.

REP. DRISCOLL asked Mr. Judge to comment on whether SB 415 distinguishes between buyers and sellers. **Mr. Judge** explained industrial customers are an important part of Montana's economy and would stand to share in the benefits of renewable energy.

REP. GEORGE GROESBECK, HD 74, BUTTE, asked Mr. Taylor where he would anticipate construction of wind generation facilities. **Mr. Taylor,** replied there are many places in Montana where wind is a viable resource. **Mr. Taylor** identified transmission as the major

factor in determining the location for a wind generation facility. **REP. GROESBECK** followed up by asking who would pay for transmission upgrades. **Mr. Taylor** depicted transmission as complex and suggested the PSC would have a role in making that determination.

REP. GROESBECK asked whether SB 415 would stabilize prices for consumers or increase prices, both in the short term and the long term. **Mr. Fitzpatrick** identified two effects of SB 415: First, it would ratchet up prices for consumers; second; it would destabilize the grid in Montana.

{Tape: 3; Side: B; Approx. Time Counter: 12.1 - 17.1; Comments: Questions from Rep. Groesbeck.}

REP. DENNIS HIMMELBERGER, HD 47, BILLINGS, was interested in the Hardin facility and the potential impact of SB 415 on that facility. **Mr. Alke** explained if SB 415 passes, customers who currently have choice will lose choice. **Mr. Alke** believed passage of SB 415 would have an adverse impact on the future of the Rocky Mountain plant at Hardin.

REP. MARK NOENNIG, HD 46, BILLINGS, referred to Page 7, Line 3, and stated he was confused about the language since it does not make any sense for a supplier to be conducting solicitations.

SEN. TESTER deferred the question to Commissioner Jergeson, who replied he had not focused on that language.

REP. NOENNIG asked Mr. Alke about the language on Page 5, Lines 6-18. **Mr. Alke** explained the language was trying to put in place a provision that would say the cost of renewable energy being mandated could not exceed the weighted average cost of power the utility paid in the prior year. **Mr. Alke** pointed out that MDU's bulk power supply cost is \$20, and no one could sell power from a wind generator for less than \$20. With the provision in tact, MDU would have no purchase obligation.

REP. DIANE RICE, HD 71, HARRISON, asked **Mr. Davis** if he knew of any other states that have used incentives rather than a mandate and what the result was. **Mr. Davis** responded he was not familiar with that aspect of the legislation, but identified setting portfolio standards as the trend. **REP. RICE** asked Mr. Davis if his company would stop doing business in Montana if SB 415 were to pass. **Mr. Davis** could not be certain, and stated it is difficult to convince a risk manager of a company to come into the state and enter into ten-year contracts. **Mr. Davis** stated it is difficult once all the requirements of doing business in Montana are added up.

REP. WAYNE STAHL, HD 35, SACO, asked Ms. Phillips what kind of electrical generation the wind power in Texas replaced, or whether wind generation was necessary due to growth and increasing need. **Ms. Phillips** did not believe wind replaced any other electrical generation.

{Tape: 4; Side: A}

REP. STAHL asked what the firming costs were for the Harlowton project. **Mr. Fitzpatrick** anticipated the initial costs for ancillary services would be approximately \$5 per MW. **Mr. Fitzpatrick** pointed out the PSC did not put a cap on that amount, so the amount is free to fluctuate according to market conditions. **REP. STAHL** wanted to know how long the firming costs were contracted for. **Mr. Fitzpatrick** spoke about imbalance power and its ability to fluctuate and the component pieces that make up the contract. **REP. STAHL** asked Mr. Fitzpatrick if he would agree the costs are not predictable, and **Mr. Fitzpatrick** agreed.

CHAIRMAN OLSON asked Mr. Anderson if he believed NWE's current transmission capacity is sufficient to handle the 15 percent requirement. **Mr. Anderson** depicted the question as technical in nature and could not answer. **CHAIRMAN OLSON** recalled previous testimony that the transmission is not adequate and would require serious upgrades.

CHAIRMAN OLSON was curious how Commissioner Schneider thought the portfolio standards would aid in stabilization of high-market costs. **Commissioner Schneider** referred to the Judith Basin project. **Commissioner Schneider** stated the contract is for 20 years, and the energy component is approximately \$32. **Commissioner Schneider** suggested portfolio standards would stabilize both short- and long-term contracts. **CHAIRMAN OLSON** referred to Mr. Perry's diagram depicting 70 percent of the portfolio is approximately \$35 and 15 percent is QFs. **CHAIRMAN OLSON** asked Commissioner Schneider to identify which part the wind would stabilize. **Commissioner Schneider** suggested it would work on the 15 percent at market. **CHAIRMAN OLSON** pointed out the 15 percent at market is not allowed under the bill. **Commissioner Schneider** explained wind power would be taken all the time because it is the most attractive source. The 70 percent Mr. Perry described, expires in 2007. **Commissioner Schneider** identified an attempt to build a portfolio that does exist and would stabilize electricity and natural gas price in the long haul, and stated wind would be a component. **Commissioner Schneider** emphasized that the two PPL contracts, representing 60

percent of the portfolio, expire in 2007. At that time, wind should be a component of the portfolio.

CHAIRMAN OLSON recalled SB 390 in 1997 made similar claims regarding competitive markets in Montana and asked if SB 415 was going down the same path. **Commissioner Schneider** suggested SB 415 provides an alternative to that path by diversifying the portfolio.

CHAIRMAN OLSON referred Patrick Judge to the language on Page 3, Lines 3-5, and asked if this section would hurt the competitive market place for renewables. **Mr. Judge** answered there was a legal opinion from Greg Petesch which suggested there were problems. **Mr. Judge** believed this is the right time in Montana to move forward with SB 415 and set a level playing field.

CHAIRMAN OLSON asked **Mr. Judge** whether he believed there are renewable generators outside Montana that might think this is protectionist. **Mr. Judge** stated renewables in other states are also growth industries that have the opportunity to produce new projects the same as Montana.

CHAIRMAN OLSON asked SEN. TESTER about Page 5, Lines 6-10, and the stricken amendment. **CHAIRMAN OLSON** thought the amendment had served to protect the consumer and asked SEN. TESTER why the amendment was removed. **SEN. TESTER** did not think the amendment was fair, and that it related to an old infrastructure. **SEN. TESTER** relayed that he would object if the amendment was put back in the bill. **CHAIRMAN OLSON** and **SEN. TESTER** disagreed on the PSC's authority to set cost caps.

REP. STAHL acknowledged that \$20 per MW hour was slated to go into the General Fund and wondered if there could be a better use for the money. **SEN. TESTER** agreed that REP. STAHL made a good point.

Closing by Sponsor:

SEN. TESTER closed the hearing by stating it takes guts to effect change. Montana has the fifth highest potential for wind development in the United States, but only generates two megawatts. **SEN. TESTER** predicted as time goes on, people will demand that renewables be included in the portfolio. **SEN. TESTER** agreed it may be painful right now for the utilities, but that it will provide benefits down the line for both the utilities and the citizens of Montana.

HOUSE COMMITTEE ON FEDERAL RELATIONS, ENERGY, AND
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ADJOURNMENT

Adjournment: 6:35 P.M.

REP. ALAN OLSON, Chairman

CYNTHIA PETERSON, Secretary

AO/cp

Additional Exhibits:

EXHIBIT ([feh77aad0.PDF](#))